

allowed to provide it on an integrated basis (§53). Extra economic costs due to structural separation had only a minor role in the FCC decision. Subsequent to the FCC's negative decision, the Modification of Final Judgment (MFJ) went into effect. The BOCs were prohibited from providing "information services" (which had a very similar definition to the FCC "enhanced service" definition) under Section II.D.1 of the MFJ. The combined effect of the FCC decision and the MFJ caused voice messaging not to be offered to residential and small customers by the BOCs.<sup>21</sup> Competing service providers did not offer voice messaging services, despite their previous claims that the equipment already existed which would permit them to offer the services, and despite the FCC's belief that competing service providers would offer the services (§85, ¶103). Thus, residential and small business customers did not have the opportunity to purchase voice messaging services.

In March 1988 Judge Greene authorized the BOCs to provide transmission (but not content) based information services. Also in 1988 the FCC began approving comparably efficient interconnection (CEI) plans which allowed the BOCs to provide individual enhanced services, such as voice messaging, on a structurally integrated basis. These changes in regulation permitted the BOCs to begin to offer the voice messaging services they had originally petitioned the FCC to provide in 1981. In practice, the BOCs began to offer voice messaging services in 1990. Demand growth for voice messaging has been extremely rapid, with current BOC subscriptions at about 6 million customers. Clearly, the demand for voice messaging existed in the U.S. in the 1980's. The technology also existed to permit voice messaging to be offered on an economical basis. However, the combination of FCC regulation and the information services prohibition of the MFJ delayed the introduction of voice messaging services in the U.S. for somewhere between 5-7 years. We now calculate the effect on consumer welfare of the delay in voice messaging services in the U.S.

---

<sup>21</sup> AT&T had told the FCC that it would not be economic to provide voice messaging services on a structurally separated basis, but the FCC rejected the claim. Medium and large businesses were able to use voice messaging services through their internal PBXs. These PBXs often had extremely similar designs to the Central Office Switches (COS) used by the BOCs, e.g. the Northern Telecom switches. However, the BOCs were prohibited from using their COSs to offer voice messaging services to their customers due to FCC rules and the MFJ.

In 1994 LEC voice messaging demand in the U.S. exceeded 6 million subscribers. Voice messaging, along with on-line information services, has been the great success story of enhanced services offered in the past 15 years. The average monthly price of LEC voice messaging service in 1994 was approximately \$8.00. We now consider lost welfare, asking the question of how much voice messaging would have benefitted consumers in 1988 if the FCC and MFJ delay had permitted voice messaging to be introduced in the mid-1980's. Initially, we will assume that in 1988 voice messaging would have accomplished the same consumer penetration at the same price in 1988 as it actually did in 1994. To make the calculation corresponding to Figure 1, we use the estimate of the voice messaging demand curve, described in Appendix A. The main parameter of the demand curve is the estimated price elasticity of -1.10 (standard error = 0.31). To make an exact estimate of the lost consumer welfare we use the formulae which are given in Appendix A to this paper.<sup>22</sup>

For the initial case of similar demand and price in 1988 as 1994, we estimate the lost consumer welfare to be \$5.7 billion (in current 1994 dollars). Thus, each residential and small business customer lost approximately \$44 per year in consumer welfare for each year that voice messaging was delayed, which demonstrates the extremely high costs of regulatory delay in the introduction of new telecommunications services. Note that the economic efficiency loss to the U.S. economy was even larger than this calculation of \$5.7 billion because the calculation ignores the contribution from voice messaging services to the joint and common costs of the BOCs and the further effect that the contribution has in decreasing other telecommunications prices.<sup>23</sup> The delay caused by the FCC and MFJ prohibition cost each voice messaging user on average about \$946 using only the lost consumer's surplus.

Now suppose that the FCC had not delayed, but instead had allowed the BOCs to provide voice messaging service in 1988 on an integrated basis. For illustrative purposes, suppose that regulation had been highly imperfect and that the BOCs had impeded competition. We will

---

<sup>22</sup>J. Hausman, "Exact Consumer's Surplus and Deadweight Loss," American Economic Review 71 (1981).

<sup>23</sup>In fact, the FCC's rules "over allocate" certain costs to unregulated services under Part 64 accounting rules.

assume in this scenario that price would have been higher by 50 percent, corresponding to an increase from  $p_1$  to  $p_3$  in Figure 2.<sup>24</sup> Consumer's surplus would decrease by \$229 million. However, the FCC regulatory delay and the MFJ prohibition still cost consumers \$5.4 billion in lost welfare in 1993. Thus, these calculations, which are summarized in Table 1, demonstrate the very large losses in consumer welfare caused by regulatory delay in the introduction of new goods.

Table 1: Estimated Lost Consumer Welfare in 1988 Due to Voice Messaging Delay (1994 Dollars)

<u>Scenario</u>	<u>Penetration</u>	<u>Assumed Price</u>	<u>Lost Welfare</u>
1. Similar to 1994	1994 level	1994 price	\$5.7 billion
2. Higher price	1994 level	50% higher	\$5.4 billion

As the estimates in Table 1 demonstrate, regulatory delay or regulatory prohibitions on the introduction of new goods and services in the U.S. economy can have an especially large negative effect on economic welfare. Billions of dollars of losses to the U.S. economy can occur for each year of delay in the introduction of a new service which consumers will value and purchase, once the service is available.

This result follows from an elementary principle in microeconomics that, even in the most extreme case, a monopolist creates significant consumer welfare when it introduces a new good. The economic reasoning is an important factor in the result that patents are awarded for 17 years. In the current situation where structural separation may lead to the outcome that new enhanced services are not introduced, the result could well be billions of dollars of lost consumer welfare and even greater losses in economic efficiency to the U.S. economy.

---

<sup>24</sup>Of course, this hypothetical outcome would have been extremely unlikely given the possible substitution of CPE-based substitutes through either PBXs or home answering machines.

C. Consumer Losses from Delay in Telecommunications Services  
Not Currently Being Offered

FCC and state regulation together with the MFJ prohibition on "incidental" interLATA services, e.g., interLATA service used to supply on-line services such as videotex or voice messaging, has deterred the introduction of new telecommunications services by the BOCs. Using these examples of unnecessary restrictions, we demonstrate that regulatory delay creates very large potential losses in consumer welfare. We now calculate the cost in consumer welfare of these regulatory prohibitions and delays using survey data collected by the Pennsylvania PUC and another survey conducted by a BOC, SBC. We use the same methodology to compute the losses in consumer welfare that we use above for calculations for voice messaging. While the future prospects for any new good or service are uncertain, these calculations demonstrate how large the losses are across these potential services. If only a few of the services prove to be successful, consumer welfare in the U.S. will increase significantly if the regulatory restrictions that inhibit the introduction of new services by the BOCs are reduced or eliminated.

(a) Pennsylvania PUC Study

We use data developed in a survey conducted for the Pennsylvania PUC in a 1993 study.<sup>25</sup> The study considered benefits to citizens of Pennsylvania from expanded telecommunications services. When we calculate gains in economic welfare, we do it on a national basis using the Pennsylvania PUC data to make nationwide estimates. We only consider enhanced (information) services which were included in the Pennsylvania PUC study.

1. Residential Customers

The first service we consider is expanded information services. These are the type of advanced information services which would permit increased working at home. While the BOCs are currently permitted to provide some information services, they are hampered by federal and state regulation, as well as the MFJ. About 47 percent of the respondents in the Pennsylvania

---

<sup>25</sup>See Deloitte and Touche, DRI/McGraw Hill, Pennsylvania Telecommunications Infrastructure Study, vol. III (Mar. 1993).

PUC study stated they would buy advanced information services. with the mean amount people were willing to pay being \$13.41 per month (p. VI-48). Calculation of the gain in economic welfare from these information services is \$20.4 billion per year. Even if the subscription rate were only half as large as the survey predicts, the increase in consumer welfare would still be about \$9.9 billion per year. Thus, the welfare gain from provision of information services which would permit increased working at home is substantially greater than the gain from voice messaging which we estimated above, because of the higher demand for these types of information services.

Another new service which received a high value from consumers in the Pennsylvania PUC study is distance learning and medical services by telecommunications. The amount in increased economic welfare is in the range of \$40 billion per year. Therefore, for the two services from the Pennsylvania PUC study, the total increase in consumer welfare is about \$60 billion per year. On a per household basis the amount is in the range of \$600 per year. Thus, introduction of new telecommunications services currently deterred or prohibited by regulation would lead to a significant gain in economic welfare for U.S. households.

## **2. Small Business Customers**

We now consider services designed for small- and medium-businesses. Note that we only calculate the direct increase in welfare using the derived demand for these services; we do not consider welfare increases from increased employment or competitiveness of these small businesses. We calculate gains in economic welfare using the derived demand approach for these telecommunications services.

Interest among small businesses in advanced telecommunications services was very high in the Pennsylvania PUC study. One service that small businesses responded would be quite useful is database use. These responses are consistent with greatly increased interest in usage of the Internet and on-line services such as Compuserve. In the Pennsylvania PUC study, 68 percent responded they would buy the service at an average payment of \$16 per month. Increased economic welfare from this service is \$8.9 billion per year; even with a subscription rate of only half of the survey response, increased economic welfare would still be \$4.4 billion per year.

(b) SBC Study

SBC conducted a study in 1994 for advanced services. Here we use the results of the SBC study. The SBC study allows estimation of discrete choice models which we use in the consumer welfare calculations. We find estimates of gains in economic welfare in a similar range to the gains which we estimated above from the Pennsylvania PUC study.

As an example of a service for small- and medium-sized businesses, we consider a fax overflow service. This service would allow reception of an incoming fax message when the business' fax machine was in use. When the fax machine ceases being in use, the message would be sent to the fax machine, or it could be rerouted to a PC which had the software to permit printing of the fax. The gain in economic welfare as measured by the derived demand for this service is approximately \$1.4 billion per year. Even if the subscription rate were only half as large as the survey predicts, the increase in economic welfare would still be about \$680 million per year.

Thus, for both residential consumers and for small- and medium-sized businesses, BOCs could offer numerous new services if the services were not prohibited by regulation. The losses in economic welfare to the U.S. economy total in the billions of dollars per year. Furthermore, much of new job growth occurs in small- and medium-sized businesses. If these businesses had advanced telecommunications services, which many large businesses currently use, small- and medium-sized businesses would be more competitive. The overall gains to the economy when the increased employment and increased competitiveness are accounted for would likely be several times larger than the billions of dollars in gains that we have estimated.

D. Potential Loss in Other Consumer Benefits

The losses from delay or complete withholding of new services from the market, while clearly the largest cost of restrictive regulations, are not the only harm done to consumers. The trend in telecommunications markets is for providers to offer a range of services in an integrated fashion -- one-stop shopping. Indeed, a recent article characterized current regulation as anachronistic in that it prevents customers from getting services on the basis that they want.

"Amid all the rhetoric about telecommunications reform, you don't hear much about bundling. But this poorly understood rule banning carriers from packaging equipment and tariffed services under a single price tag is getting increased scrutiny from critics, who call it an anachronism. They say that the bundling rule is a regulatory straightjacket that makes it unnecessarily difficult for users to get integrated network solutions."<sup>26</sup>

While the reference to the bundling restriction quoted above refers primarily to large business customers, the general principle applies in all markets. By making it more difficult to obtain services, regulation can cause a real loss in consumer benefits.

Some indication of the magnitude of these losses is provided by consumer research for other products. We are aware of studies in which the ability to obtain services from a single point of contact is one of the most important factors in how consumers choose their telecommunications services. For example, a recent BellSouth study indicated that the ability to provide one-stop shopping gave interexchange carriers (IXCs) an advantage that is worth a substantial proportion of price.<sup>27</sup>

In summary, while smaller than the effects of new services, which generate welfare benefits that are a multiple of current expenditures, the convenience of one-stop shopping confers consumer benefits that are a substantial fraction of expenditures. Measures which artificially constrain the offering of this convenience can be costly indeed. For example, if the convenience of one-stop shopping is valued by consumers at 10 to 20 percent of price, which is a very conservative estimate compared to findings for other services, the cost to society of denying this benefit to BOC consumers would be in the \$50 million - \$100 million each year.

---

<sup>26</sup>David Rohde, "Carrier Deals Raise a Bundle of Questions," Network World, Feb. 1995.

<sup>27</sup>Testimony of Arthur T. Smith on behalf of Southern Bell, Docket No. 930330-TP (Fla. P.S.C. July 1, 1994). This preference for one stop shopping even cuts across cultures. In a study of Japanese consumers, we estimated that the ability to obtain calling services from a single provider was worth about 14 percent of the average price. Timothy J. Tardiff, "The Effects of Presubscription and Other Attributes on Long-Distance Carrier Choice," Presented at the National Telecommunications Forecasting Conference, Boston, MA, May 1994.

### E. Total Consumer Welfare Loss

Consumers and businesses gain large amounts of economic welfare with the introduction of new goods and services in the U.S. economy. To date, the economic cost of the prohibition of introduction of these services by the BOCs has not been analyzed. Our estimates, summarized in Table 2, demonstrate that the losses to the U.S. economy are most likely in the range of \$50-\$100 billion per year. A welfare loss of this size is about 1-2 percent of U.S. gross domestic product. The experience in voice messaging and cellular telephone service is being repeated as interested parties attempt to gain an advantage from prohibition or delay of BOC provision of new services. The loss to the U.S. economy is significant.<sup>28</sup> Furthermore, the loss to small- and medium-sized businesses, which provide a substantial fraction of new jobs in the U.S. economy, is also important. Overall, continued removal of regulatory restrictions on the introduction of new services will lead to significant gains to consumers, small businesses, and the U.S. economy.

Table 2: Economic Welfare Losses Per Year From Delay in New Services

<u>Service type</u>	<u>Residential or Business</u>	<u>Welfare Loss</u>
1. Advanced information services	Residential	\$20.4 billion
2. Distance learning and medical	Residential	\$40.0 billion
3. Database access	Business	\$ 8.9 billion
4. Fax overflow	Business	\$ 1.4 billion
<u>Total</u>		<u>\$70.7 billion per year</u>

### V. Diseconomies from Structural Separation

The bulk of the enhanced service revenues for the BOCs are generated by voice messaging services. Currently, these services are provided on an integrated basis with other LEC services.

---

<sup>28</sup>Hausman, 1994a, *op. cit.*, estimated that the cost of delaying cellular telephone services was about \$25 billion annually.



We have estimated the increase in unit costs of voice messaging that structural separation would impose from studies performed by two BOCs. Although these studies employed separate approaches and assumptions, the conclusions were quantitatively similar: structural separation would increase unit costs by about 30 percent.<sup>29</sup> Assuming that the services were still economic to provide, such cost increases would reduce economic efficiency by at least an average of \$100 million per year.

**A. Bell Atlantic**

Bell Atlantic compared cash flows over a 10 year period (1995 to 2004) for their current operation and for a structurally separated subsidiary. Based on these cash flows, we estimate that structural separation would increase the cost of enhanced services by about 30 percent of price. Bell Atlantic expects that structural separation would have two major impacts on revenues and costs: (1) establishing separate sales channels would diminish the effectiveness of the marketing of voice messaging, resulting in a decrease in volume relative to the current (business as usual) arrangement and (2) additional one-time and ongoing costs would be entailed in making the move and separating the operations, including increased advertising to offset the loss of an effective marketing channel. Consequently, revenues would decrease and costs would increase. In effect, there are three types of diseconomies in the cost study: capital costs that are fixed over the relevant volumes, extra out-of-pocket costs associated with the separation, and reduced productivity in producing the output.

Our analysis proceeded as follows. First, we calculated the net present value of revenues and total costs, using the FCC's prescribed rate of return of 11.25 percent.<sup>30</sup> Next, we

---

<sup>29</sup>Under different sets of assumptions, the estimated cost savings from structural integration could well differ.

<sup>30</sup>The results are not very sensitive to the discount rate. For example, the changes in the unit costs reported below change very little when a discount rate of 8 percent is used.

calculated the cost per unit of revenue for each of the two cases.<sup>31</sup> The results appear in the table below.

	Business as Usual	Separate Sub	Change
Present Value of Revenues	\$973 Million	\$696 Million	(28.4%)
Present Value of Cost <sup>32</sup>	\$773 Million	\$717 Mill <sup>33</sup>	(7.3%)
Cost Index	0.79	1.03	(29.6%)

The outcome that cost exceeds revenues in the separate subsidiary case means that voice messaging has a negative cash flow. That is, if Bell Atlantic were making this business decision anew with a separate subsidiary requirement, the service might not even be offered. The resulting losses to customers are large, as we previously demonstrated.

#### B. U S West

U S West's study explicitly identified the extra costs that structural separation would impose. These costs included both one-time and ongoing costs, both of which are unnecessary if vertically integrated provisioning remained in effect. These additional costs would increase the cost of enhanced services by 30 percent, as we detail below.

---

<sup>31</sup>Because Bell Atlantic assumed the same prices would prevail in both cases and that the mix of voice messaging services would remain the same, the revenues are equivalent to a quantity index. Therefore, cost divided by revenue can be interpreted as a unit cost.

<sup>32</sup>The "business as usual" cash flow includes payments to the regulated part of the business under Part 64. We removed these costs, because they are transfer payments, rather than true incremental costs.

<sup>33</sup>Note that total costs are less in this case, but that output has decreased significantly compared to the business as usual case. On a per subscriber basis, (average) cost has increased by 29.6%.

U S West's study assumed that structural separation would require acquiring and equipping a new building to house personnel that are currently shared with other non-enhanced services. In addition, the equipment now located in central offices would have to be relocated to new facilities. Thus, structural separation produces large and measurable diseconomies of scope.

Our approach is to quantify the increased cost caused by structural separation as a fraction of the revenue U S West expects. We use a 10 year study life and a 10 percent discount rate. Because of differences in tax treatment, we use three different categories of cost increases.

Capital Costs: U S West estimates that relocating administration personnel to a different building would require \$36 million in one-time capital costs. These costs consist of equipment (computers, phones, and the like) and furniture. Depreciation associated with these expenditures is tax deductible, but the capital expenses themselves are not.<sup>34</sup>

In order for the costs associated with capital to be recovered, the present value of pre-tax revenues would have to increase by more than the present value of the capital expense -- while the depreciation tax benefit reduces the size of the capital expenditure, the fact that this charge has to be recovered in after-tax dollar increases the required revenue by even more. We estimate that pre-tax revenues would have to increase by \$41 million (in present value) to offset the capital expenditures.

One-Time Expenses: U S West estimates that structural separation would require \$60 million of one-time expenses. These charges are for the most part associated with the labor required to equip the administrative building (\$8 million) and relocate the enhanced services

---

<sup>34</sup>Precise calculation of the depreciation tax benefit would require detailed information on the types of equipment and their tax depreciation lives. As a simplification, we have used straight line depreciation over the 10 year study life. At a 10 percent discount rate and a 40 percent tax rate, the present value of the tax depreciation benefit is about 25 percent of the capital cost.

facilities (\$53 million).<sup>35</sup> For tax purposes, these expenses are deductible in the year that they are incurred. Therefore, revenue would need to increase on a dollar-for-dollar basis to recover these expenses. We assume that these one-time expenses are incurred in 1996. The present value (in 1995) is, therefore, about \$56 million.

**Annual Expenses:** These expenses include the annual lease for the administration building (\$13.5 million) plus ongoing expenses related to the relocated facilities (\$18 million).<sup>36</sup> The present value of these expenses over the 10 year study life is about \$194 million.

**Total Costs:** The present value of capital, one-time, and ongoing expenses is about \$292 million. This is the sum of the present values of the capital costs (\$41 million), one-time expenses (\$56 million), and ongoing expenses (\$194 million). Therefore, ongoing expenses account for about two-thirds of the added costs.

**Revenue:** U S West projects that enhanced services revenues will grow at a rate of about 10 percent annually through 1998. We extended this rate to the end of our study period (2005). The revenue projection grows from about \$95 million in 1995 to about \$250 million in 2005. The present value of these revenues is about \$960 million. Thus, the cost increases produced by structural separation are over 30 percent of expected revenues.<sup>37</sup>

We view this estimate as conservative, because it does not account for the decreased effectiveness of marketing under structural separation. Because LEC business offices would no longer market enhanced services, a cost-effective sales channel would be closed off. Thus, U S

---

<sup>35</sup>A 1990 U S West study estimated that the equipment relocation expenses would be about \$44 million. We have increased this estimate by 20 percent to account for inflation between 1990 and 1996 (the year in which relocation is assumed to occur).

<sup>36</sup>Again, we adjusted the \$15 million in annual expenses from the 1990 U S West study to account for inflation.

<sup>37</sup>This percentage is not very sensitive to the discount rate. For example, at 8 percent, the additional costs are 29 percent of revenue, and at 12 percent, these costs are 32 percent of revenues.

West would incur the additional cost of either increasing marketing expenses by employing less effective sales channels and/or facing reduced revenues over which to recover the increased costs.

VI. Summary and Conclusions

Requiring structural separation for the BOCs' enhanced services would impose large costs on both consumers and the BOCs themselves. New products and services may simply not be offered to consumers if structural separation is mandated. The loss to consumers from withholding such products can well be in the tens of billions of dollars annually. Even if the products were still produced, costs would be higher, on the order of \$100 million annually for BOC voice messaging services. Finally, structural separation inconveniences customers by denying them the benefit of one-stop shopping. Such integrated buying is a growing trend in the industry and customers, as well as BOCs, are harmed by selectively withholding this ability from the BOCs' enhanced services.

In contrast to these clearly identified and large losses, the benefits to competition from replacing non-structural safeguards with structural separation is problematic. The robust markets for enhanced services strongly suggest that anticompetitive behavior is absent, and the ONA processes themselves seem to be conducive to non-discriminatory network access at prices that do not disadvantage unaffiliated providers. On these grounds, we conclude that the costs of replacing non-structural safeguards with structural separation far exceed any benefits to competition that could conceivably arise.

Figure 1

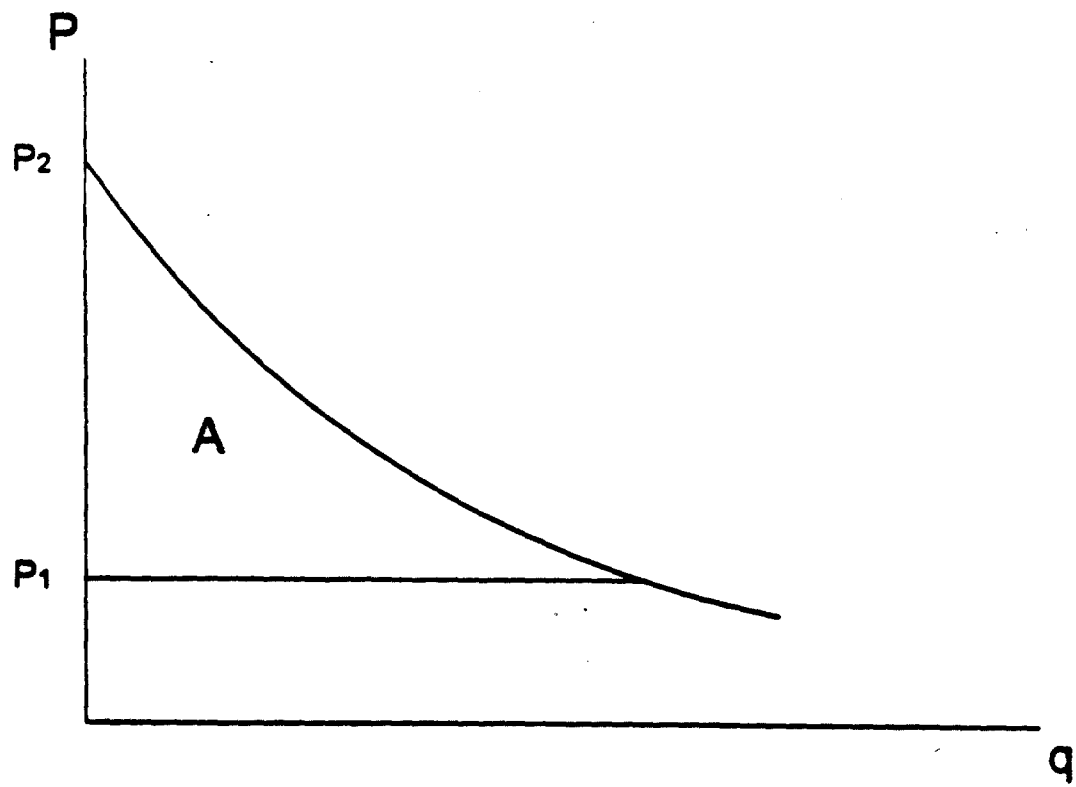
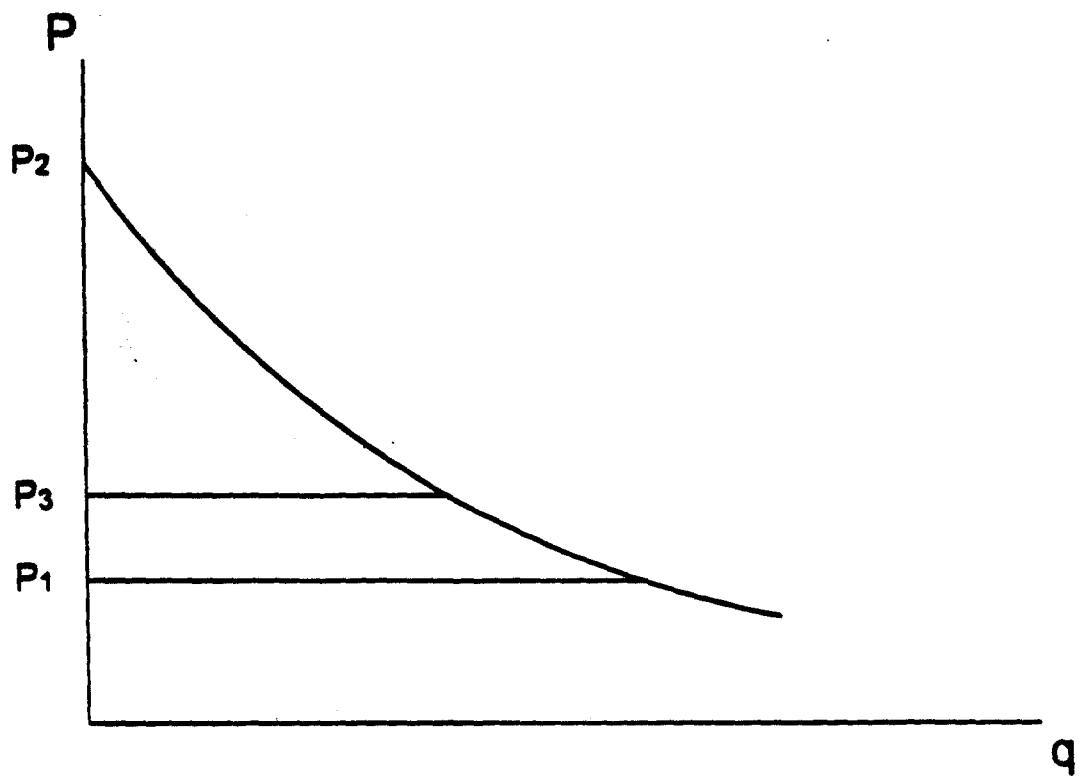


Figure 2



## Appendix A

### (1) Formulae for Consumer Welfare Calculations

To estimate the overall effect on consumer welfare, we use an exact consumers surplus approach using the expenditure function for the log linear demand curve. 1. First, we use the expenditure function calculated in Hausman (1981), equation (23)<sup>38</sup>:

$$e(p, \bar{u}) = [(1-\delta) (\bar{u} + Ap^{1-\alpha}/(1+\alpha))]^{1/(1-\delta)} \quad (1)$$

where A is the intercept of the demand curve,  $\alpha$  is the price elasticity, and  $\delta$  is the income elasticity estimate. The compensating variation is calculated from equation (1) where y is income:

$$CV = \left\{ \frac{(1-\delta)}{(1+\alpha)} y^{-\delta} [p_1 x_1 - p_0 x_0] + y^{(1-\delta)} \right\}^{1/(1-\delta)} - y \quad (2)$$

The compensating variation is used to calculate the effect of price changes on consumer welfare.

For the case of a new good, the expenditure function from equation (1) is used to calculate the compensated (Hicksian) demand curve, and the "reservation" or "virtual" price is calculated; see Hausman (1994).<sup>39</sup> This price can be used in the expenditure function of equation (1) to calculate consumer's surplus from introduction of the new good.

---

<sup>38</sup>J. Hausman, "Exact Consumer's Surplus and Deadweight Loss," American Economic Review 71 (1981).

<sup>39</sup>J. Hausman, "Valuation of New Goods Under Perfect and Imperfect Competition," MIT Working Paper (June 1994).

## (2) Econometric Results for Voice Messaging

Data on demand for BOC voice messaging was available for 14 states over a 4 year period, 1991-1994. A log-log demand specification, consistent with the consumer welfare methodology developed above, was used. Fixed effects for each state were included, as well as state specific time trends to allow for the growth in demand of voice messaging as potential customers become increasingly aware of the service. To account for potential joint endogeneity of demand and price, we use the Hausman-Taylor (1981) approach of prices from different markets as instruments for prices in a given market.<sup>40</sup>

The model fits quite well, with the standard error estimated to be 0.042.<sup>41</sup> The estimated price elasticity is -1.10, with an asymptotic standard error of 0.31. Thus, the estimated t-statistic is 3.55, which indicates quite precise estimation.

---

<sup>40</sup>J. Hausman and W. Taylor, "Panel Data and Unobservable Individual Effects." Econometrica (1981).

<sup>41</sup>In terms of an  $R^2$  measure for an OLS regression, the  $R^2$  would be 0.999, although this measure is not appropriate for an instrumental variable estimator.



March 1995

**JERRY A. HAUSMAN**  
Massachusetts Institute of Technology  
Department of Economics  
Building E52-271A  
Cambridge 02139  
(617) 253-3644

**EDUCATION:**

**OXFORD UNIVERSITY**

D. Phil. 1973 (Ph.D)

B. Phil. 1972

**BROWN UNIVERSITY**

A.B. (Summa Cum Laude), 1968

**THESIS:**

"A Theoretical and Empirical Study of Vintage Investment and Production in Great Britain,"  
Oxford University, 1973.

**FELLOWSHIPS, HONORS AND AWARDS:**

Phi Beta Kappa

Marshall Scholar at Oxford, 1970-1972

Scholarship at Nuffield College, Oxford, 1971-1972

Fellow of Econometric Society, 1979.

Frisch Medal of the Econometric Society, 1980

Fisher-Schultz Lecture for the Econometric Society, 1982

John Bates Clark Award of the American Economic Association, 1985

Jacob Marschak Lecture for the Econometric Society, 1988

American Academy of Arts and Sciences, 1991.

**EMPLOYMENT:**

**MASSACHUSETTS INSTITUTE OF TECHNOLOGY**

1992- John and Jennie S. MacDonald Professor

1979- Professor, Department of Economics

1976-79 Associate Professor, Department of Economics

1973-76 Assistant Professor, Department of Economics

1972-73 Visiting Scholar, Department of Economics

**VISITING APPOINTMENTS:**

1986-87 Visiting Professor, Harvard Business School

1982-83 Visiting Professor, Harvard University Department of Economics

**U.S. ARMY, ANCHORAGE, ALASKA**

1968-70 Corps of Engineers

## PROFESSIONAL ACTIVITIES:

Associate Editor, Bell Journal of Economics, 1974-1983  
Associate Editor, Rand Journal of Economics, 1984-1988  
Associate Editor, Econometrica, 1978-1987  
Reviewer, Mathematical Reviews, 1978-1980  
American Editor, Review of Economic Studies, 1979-82  
Associate Editor, Journal of Public Economics, 1982-  
Associate Editor, Journal of Applied Econometrics, 1985-1993  
Member of MIT Center for Energy and Environmental Policy Research, 1973-  
Research Associate, National Bureau of Economic Research, 1979-  
Member, American Statistical Association Committee on Energy Statistics, 1981-1984  
Special Witness (Master) for the Honorable John R. Bartels, U.S. District Court for the Eastern District of New York in Carter vs. Newday, Inc., 1981-82  
Member of Governor's Advisory Council (Massachusetts) for Revenue and Taxation, 1984-1992  
Member, Committee on National Statistics, 1985-1990  
Member, National Academy of Social Insurance, 1990-  
Member, Committee to Revise U.S. Trade Statistics 1990-1992  
Director, MIT Telecommunications Economics Research Program, 1988-  
Board of Directors, Thesis Institute, France Telecom University, 1988-  
Member, Conference on Income and Wealth, National Bureau of Economic Research, 1992-

## PUBLICATIONS:

### I. Econometrics

- "Minimum Mean Square Estimators and Robust Regression," Oxford Bulletin of Statistics, April 1974.
- "Minimum Distance and Maximum Likelihood Estimation of Structural Models in Econometrics," delivered at the European Econometric Congress, Grenoble: August 1974.
- "Full-Information Instrumental Variable Estimation of Simultaneous Equation Models," Annals of Economic and Social Measurement, October 1974.
- "Estimation and Inference in Nonlinear Structural Models," Annals of Economic and Social Measurement, with E. Berndt, R.E. Hall, and B.H. Hall, October 1974.
- "An Instrumental Variable Approach to Full-Information Estimators in Linear and Certain Nonlinear Econometric Models," Econometrica, May 1975.
- "Simultaneous Equations with Errors in Variables," delivered at Winter Econometric Meetings, San Francisco: December 1974; published in Journal of Econometrics 5, 1977, pp. 389-401.
- "Social Experimentation, Truncated Distributions, and Efficient Estimation," delivered at the World Econometric Congress, Toronto: August 1975; Econometrica, with D. Wise, June 1977.
- "A Conditional Probit Model for Qualitative Choice," delivered at World Econometric Congress, Toronto: August 1975; MIT Working Paper 173, April 1976; Econometrica, with D. Wise, March 1978.

**PUBLICATIONS cont.:**

- "Specification Tests in Econometrics," MIT Working Paper 185, June 1976; Econometrica, 1978.
- "Non-Random Missing Data," with A.M. Spence, MIT Working Paper 200, May 1977.
- "Attrition Bias in Experimental and Panel Data: The Gary Income Maintenance Experiment," with D. Wise, J.F. Kennedy School Working Paper, May 1977; Econometrica, January 1979.
- "Missing Data and Self Selection in Large Panels," with Z. Griliches and B.H. Hall, Harvard Economics Department Working Paper, August 1977; delivered at INSEE conference on Panel Data, Paris: August 1977; Annales de l'INSEE, April 1978.
- "Stratification on Endogenous Variables and Estimation," with D. Wise, J.F. Kennedy School Working Paper, January 1978; delivered at CME Conference, April 1978; in The Analysis of Discrete Economic Data, ed. C. Manski and D. McFadden, MIT Press, 1981.
- "Les models probit de choix qualitatifs," ("Alternative Conditional Probit Specifications for qualitative Choice.") (English Version), September 1977; EPRI report on discrete choice models, presented at INSEE Seminar, Paris: May 1978; Cahiers du Seminar d'Econometrie, 1980.
- "The Econometrics of Labor Supply on Convex Budget Sets," Economic Letters, 1979.
- "Panel Data and Unobservable Individual Effects," with W. Taylor, MIT Working Paper 225; Econometrica 49, November 1981.
- "Comparing Specification Tests and Classical Tests," with W. Taylor, August 1980, Economic Letters, 1981.
- "The Effect of Time on Economic Experiments," invited paper at Fifth World Econometrics Conference, August 1980; in Advances in Econometrics, ed. W. Hildebrand, Cambridge University Press, 1982.
- "Sample Design Considerations for the Vermont TOD Use Survey," with John Trimble, Journal of Public Use Data, 9, 1981.
- "Identification in Simultaneous Equations Systems with Covariance Restrictions: An Instrumental Variable Interpretation," with W. Taylor, December 1980; Econometrica, 1983.
- "Stochastic Problems in the Simulation of Labor Supply," presented at NBER conference, January 1981; in Tax Simulation Models, ed. M. Feldstein, University of Chicago Press, 1983.
- "The Design and Analysis of Social and Economic Experiments," invited paper for 43rd International Statistical Institute Meeting, 1981; Review of the ISI.
- "Specification and Estimation of Simultaneous Equation Models," in Handbook of Econometrics, ed. Z. Griliches and M. Intriligator, vol. 1, 1983.
- "Full-Information Estimators," in Kotz-Johnson, Encyclopedia of Statistical Science, vol. 3, 1983
- "Instrumental Variable Estimation," in Kotz-Johnson, Encyclopedia of Statistical Science, vol. 4, 1984

**PUBLICATIONS cont.:**

- "Specification Tests for the Multinomial Logit Model," with D. McFadden, October 1981; Econometrica, 1984.
- "Econometric Models for Count Data with an Application to the Patents R&D Relationship," with Z. Griliches and B. Hall, NBER Working Paper, August 1981; Econometrica, 1984.
- "The Econometrics of Nonlinear Budget Sets," Fisher-Shultz lecture for the Econometric Society, Dublin: 1982; Econometrica, 1985.
- "The J-Test as a Hausman Specification Test," with H. Pesaran, November 1982; Economic Letters, 1983.
- "Seasonal Adjustment with Measurement Error Present," with M. Watson, May 1983; Journal of the American Statistical Association, 1985.
- "Efficient Estimation and Identification of Simultaneous Equation Models with Covariance Restrictions," with W. Newey and W. Taylor, October 1983; Econometrica, 1987.
- "Technical Problems in Social Experimentation: Cost Versus Ease of Analysis," with D. Wise, in Social Experimentation, ed. J. Hausman and D. Wise, 1985.
- "Errors in Variables in Panel Data," with Z. Griliches, Journal of Econometrics, 1986.
- "Specifying and Testing Econometric Models for Rank-Ordered Data," with P. Ruud; Journal of Econometrics, 1987.
- "Semiparametric Identification and Estimation of Polynomial Errors in Variables Models," with W. Newey, J. Powell and H. Ichimura, 1986, Journal of Econometrics, 1991.
- "Flexible Parametric Estimation of Duration and Competing Risk Models," with A. Han, November 1986, revised January 1989, Journal of Applied Econometrics, 1990.
- "Consistent Estimation of Nonlinear Errors in Variables Models with Few Measurements," with W. Newey and J. Powell, 1987.
- "Nonlinear Errors in Variables: Estimation of Some Engel Curves," Jacob Marschak Lecture of the Econometric Society, Canberra 1988, forthcoming in Journal of Econometrics.
- "Optimal Revision and Seasonal Adjustment of Updated Data: Application to Housing Starts," with M. Watson, Journal of the American Statistical Association Proceedings, 1991.
- "Seasonal Adjustment of Trade Data," with R. Judson and M. Watson, ed. R. Baldwin, Behind the Numbers: U.S. Trade in the World Economy, 1992.
- "Nonparametric Estimation of Exact Consumers Surplus and Deadweight Loss," with W. Newey, 1990, revised 1992, revised 1995, forthcoming Econometrica.
- "Misclassification of a Dependent Variable in Qualitative Response Models," with F. Scott-Morton, mimeo December 1993.

**PUBLICATIONS cont.:**

**II. Public Finance**

"The Evaluation of Results from Truncated Samples," with D. Wise, Annals of Economic and Social Measurement, April 1976.

"Discontinuous Budget Constraints and Estimation: The Demand for Housing," with D. Wise, J.F. Kennedy School Working Paper, July 1977; Review of Economic Studies, 1980.

"The Effect of Taxation on Labor Supply: Evaluating the Gary Negative Income Tax Experiment," with G. Burtless, October 1977; Journal of Political Economy, December 1978.

"AFDC Participation -- Permanent or Transitory?," delivered at NBER-NSF Conference, August 1978; in Papers from the European Econometrics Meetings, ed. E. Charatsis, North Holland: 1981.

"The Effect of Wages, Taxes, and Fixed Costs on Women's Labor Force Participation," March 1979; presented at SSRC-NBER Conference on Taxation, Cambridge, England: June 1979; Journal of Public Economics, October 1980.

"The Effect of Taxes on Labor Supply," presented at Brookings Conference, October 1979; published in How Taxes Affect Economic Behavior, ed. H. Aaron and J. Pechman, Brookings: 1981.

"Income and Payroll Tax Policy and Labor Supply," presented at St. Louis Fed. conference, October 1980; in The Supply Side Effects of Economic Policy, ed. G. Burtless, St. Louis: 1981.

"Individual Retirement Decisions Under an Employer-Provided Pension Plan and Social Security," with G. Burtless, Journal of Public Economics, 1982.

"Individual Retirement and Savings Decisions," with P. Diamond, October 1981; presented at SSRC-NBER Conference on Public Economics, Oxford: June 1982; Journal of Public Economics, 1984.

"Retirement and Unemployment Behavior of Older Men," with P. Diamond, presented at Brookings Conference on the Aged, November 1982; in H. Aaron and G. Burtless, Retirement and Economic Behavior, Brookings: 1984.

"Tax Policy and Unemployment Insurance Effects on Labor Supply," May 1983; in Removing Obstacles to Economic Growth, ed. M. Wachter, 1984.

"Family Labor Supply with Taxes," with P. Ruud, American Economic Review, 1984.

"Social Security, Health Status and Retirement," with D. Wise, in Pensions, Labor, and Individual Choice, ed. D. Wise, 1985.

"The Effect of Taxes on Labor Supply," January 1983; in Handbook on Public Economics, ed. A. Auerbach and M. Feldstein, 1985.

"Choice Under Uncertainty: The Decision to Apply for Disability Insurance," with J. Halpern, Journal of Public Economics, 1986.

**PUBLICATIONS cont.:**

"Household Behavior and the Tax Reform Act of 1986," with J. Poterba, October 1986; Journal of Economic Perspectives, 1987, also published in French in Annales D'Economie et de Statistique, 1988.

"Involuntary Early Retirement and Consumption," with L. Paquette, ed. G. Burtless, Economics of Health and Aging, 1987.

"Income Taxation and Social Insurance in China," in Sino-U.S. Scholars on Hot Issues in China's Economy, 1990.

"On Contingent Valuation Measurement of Nonuse Values," with P. Diamond, in Contingent Valuation: A Critical Appraisal, ed. J. Hausman, 1993.

"Does Contingent Valuation Measure Preferences? Experimental Evidence," with P. Diamond, G. Leonard, M. Denning, in Contingent Valuation: A Critical Appraisal, ed. J. Hausman, 1993.

"Contingent Valuation: Is Some Number Better than No Number?" with P. Diamond, December 1993, forthcoming in Journal of Economic Perspectives.

**III. Applied Micro Models**

"Project Independence Report: A Review of U.S. Energy Needs up to 1985," Bell Journal of Economics, Autumn 1975.

"Individual Discount Rates and the Purchase and Utilization of Energy Using Durables," MIT Energy Laboratory Working Paper, January 1978; Bell Journal of Economics, Spring 1979.

"Voluntary Participation in the Arizona Time of Day Electricity Experiment," with D. Aigner, May 1978; delivered at EPRI Conference on Time of Day Pricing, June 1978; in EPRI Report, Modeling and Analysis of Electricity Demand by Time of Day, 1979; Bell Journal of Economics, 1980.

"A Two-level Electricity Demand Model: Evaluation of the Connecticut Time-of-Day Pricing Test," delivered at EPRI Conference on Time of Day Pricing; with D. McFadden, in EPRI Report, Modeling and Analysis of Electricity Demand by Time of Day, 1979; Journal of Econometrics, 1979.

"Assessing the Potential Demand for Electric Cars," with S. Beggs and S. Cardell, presented at EPRI Conference, November 1979; Journal of Econometrics, 1981.

"Assessment and Validation of Energy Models," presented at EIA-NBS conference on Energy Models, May 1980; in Validation and Assessment of Energy Models, ed. S. Gass, Washington: Department of Commerce, 1981.

"Exact Consumer Surplus and Deadweight Loss," working paper 1979, American Economic Review, 71, 1981.

"Appliance Purchase and Usage Adaptation to a Permanent Time of Day Electricity Rate Schedule," with J. Trimble, August 1983; Journal of Econometrics, 1984.

**PUBLICATIONS cont.:**

- "Evaluating the Costs and Benefits of Appliance Efficiency Standards," with P. Joskow, MIT Energy Lab Working Paper, MIT-EL82005WP; American Economic Review, 72, 1982.
- "Information Costs, Competition and Collective Ratemaking in the Motor Carrier Industry," presented at Conference On Consensual Decision Making, American University, August 1982; American University Law Review, 1983.
- "An Overview of IFFS," presented at EIA-NBS Conference on Energy Models, August 1982; in Intermediate Future Forecasting System, ed. S. Gass et al., Washington: 1983.
- "Choice of Conservation Actions in the AHS," November 1982; in Energy Simulation Models, ed. R. Crow, 1983.
- "Patents and R&D: Searching for a Lag Structure," with B. Hall and Z. Griliches, in Actes du Colloque Econometrie de la Recherche, Paris: 1983.
- "The Demand for Optional Local Measured Telephone Service," in Adjusting to Regulatory, Pricing and Marketing Realities, East Lansing: 1983.
- "Patents and R&D: Is There a Lag?," with B. Hall and Z. Griliches, 1985; International Economic Review, 1986.
- "Price Discrimination and Patent Policy," with J. MacKie-Mason, Rand Journal of Economics, 1988.
- "Residential End-Use Load Shape Estimation from Whole-House Metered Data," IEEE Transactions on Power Systems, 1988 (with I. Schick, P. Vsoro, and M. Ruane).
- "Competition in Telecommunications for Large Users in New York," with H. Ware and T. Tardiff, Telecommunications in a Competitive Environment, 1989.
- "Innovation and International Trade Policy," Oxford Review of Economic Policy, 1988 (with J. MacKie-Mason).
- "The Evolution of the Central Office Switch Industry," with W. E. Kohlberg, 1987; in ed. S. Bradley and J. Hausman, Future Competition in Telecommunications, 1989.
- "Future Competition in Telecommunications," 1987; ed. S. Bradley and J. Hausman, Future Competition in Telecommunications, 1989.
- "Joint Ventures, Strategic Alliances and Collaboration in Telecommunications," presented at International Conference on Joint Ventures in Telecommunications, October 1989, Regulation, 1991.
- "An Ordered Probit Model of Intra-day Securities Trading," with A. Lo and C. MacKinlay, Journal of Financial Economics, 1992.
- "A Proposed Method for Analyzing Competition Among Differentiated Products," with G. Leonard and J.D. Zona, Antitrust Law Journal, 60, 1992.

**PUBLICATIONS cont.:**

- "A Utility-Consistent Combined Discrete Choice and Count Data Model: Assessing Recreational Use Losses Due to Natural Resource Damage," with G. Leonard and D. McFadden, October 1992, Journal of Public Economics, 56, 1995.
- "Global Competition and Telecommunications," in Bradley, et al., ed., Globalization, Technology and Competition, 1993.
- "The Bell Operating Companies and AT&T Venture Abroad and British Telecom and Others Come to the US," presented at Harvard Business Conference on International Telecommunications, 1991, in Bradley, et al., ed., Globalization, Technology and Competition, 1993.
- "Competitive Analysis with Differentiated Products," with G. Leonard and D. Zona, September 1992, forthcoming in Annales, D'Economie et de Statistique.
- "The Effects of the Breakup of AT&T on Telephone Penetration in the US," with T. Tardiff and A. Belinfante, American Economic Review, 1993.
- "Proliferation of Networks in Telecommunications," ed. D. Alexander and W. Sichel, Networks, Infrastructure, and the New Task for Regulation, University of Michigan Press, forthcoming 1995.
- "The Effect of Superstars in the NBA: Economic Value and Policy," with G. Leonard, mimeo May 1994.
- "Valuation of New Goods Under Perfect and Imperfect Competition," MIT Working Paper, June, 1994.
- "Cellular Telephone: Competition and Regulation," mimeo, June 1994.
- "Competition in Long Distance and Equipment Markets: Effects of the MFJ," 1994, forthcoming in Journal of Managerial and Decision Economics, 1995.
- "The Cost of Cellular Telephone Regulation," mimeo, 1995.

**JOINT REPORTS, TESTIMONY, AND BOOKS:**

- "Project Independence: An Economic Analysis," Technology Review, May 1974.
- "The FEA's Project Independence Report: Testimony before Joint Economic Committee," U.S. Congress, March 18, 1975.
- "The FEA's Project Independence Report: An Analytical Assessment and Evaluation," NSF Report, June 1975.
- "Energy Demand in the ERDA Plan," with D. Wood, Energy Laboratory Report, August 1975.



**JOINT REPORTS, TESTIMONY, AND BOOKS cont.:**

"A Note on Computational Simplifications and Extensions of the Conditional Probit Model," EPRI report on choice models, September 1977.

"Labor Supply Response of Males to a Negative Income Tax," Testimony for U.S. Senate Finance Subcommittee on Public Assistance, November 22, 1978.

"Appliance Choice with Time of Day Pricing," Energy Laboratory Report, January 1980.

"Discrete Choice Models with Uncertain Attributes," Oak Ridge National Laboratories Report, January 1980.

"Individual Savings Behavior," with P. Diamond, Report to the National Commission on Social Security, May 1980.

"Wealth Accumulation and Retirement," with P. Diamond, Report to the Department of Labor, May 1982.  
"A Review of IFFS," Report to the Energy Information Agency, February 1982.

"A Model of Heating System and Appliance Choice," with J. Berkovec and J. Rust, December 1983.

"Labor Force Behavior of Older Men After Involuntary Job Loss," with L. Paquette, Report to Department of Health and Human Services, December 1985.

"Pollution and Work Days Lost," with D. Wise and B. Ostrow, NBER Working Paper, January 1984; Revised 1985.

"Demand for Interstate Long Distance Telephone Service," with A. Jafee and T. Tardiff, November 1985.

"Competition in the Information Market 1990", August 1990.

The Choice and Utilization of Energy Using Durables, ed. J. Hausman, Palo Alto: EPRI, 1981.

Social Experimentation, ed. J. Hausman and D. Wise, Chicago: 1985.

Future Competition in Telecommunications, ed. S. Bradley and J. Hausman, Harvard: 1989.

Contingent Valuation: A Critical Appraisal, ed. J. Hausman, North Holland, 1993.

Globalization, Technology and Competition, ed. S. Bradley, J. Hausman, R. Nolan, Harvard 1993.

"The Welfare Cost to the US Economy of Regulatory Restriction in Telecommunications," January 1995.

Economic Impact of Deregulating U.S. Communications Industries, The WEFA Group, Burlington, MA, February 1995.

JAH/lag